

State UI Tax Features that Promote Solvency

UI Tax Conference- Boise, ID
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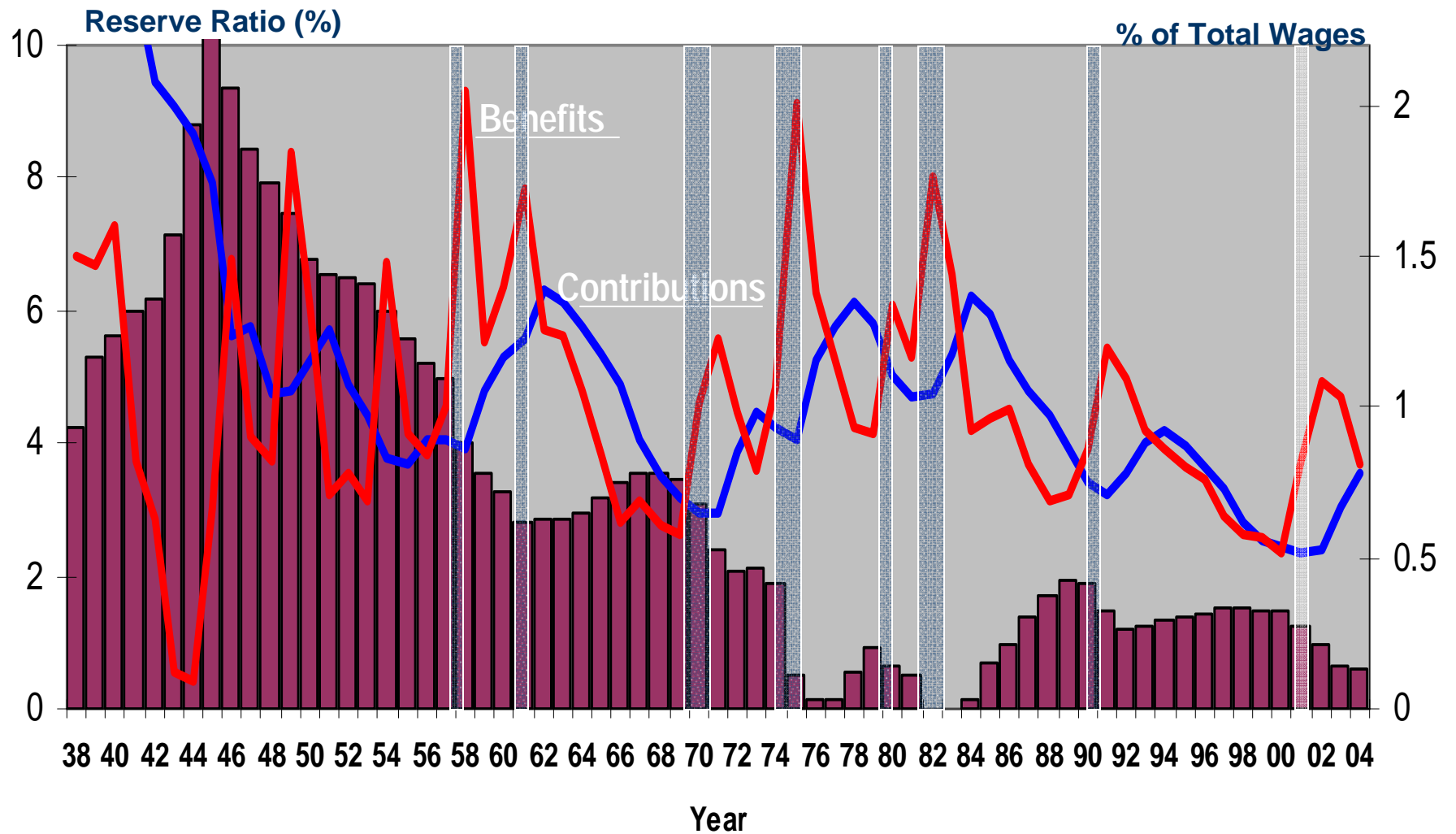
Federal Unemployment Tax Act (FUTA, 1935)

- No requirements for amount of money in state trust funds.
- Any reduction in awarded rates must be based on an employers experience with unemployment.
- The Standard Rate must be at least the value of the credit amount 5.4% (.8% from 6.2%)

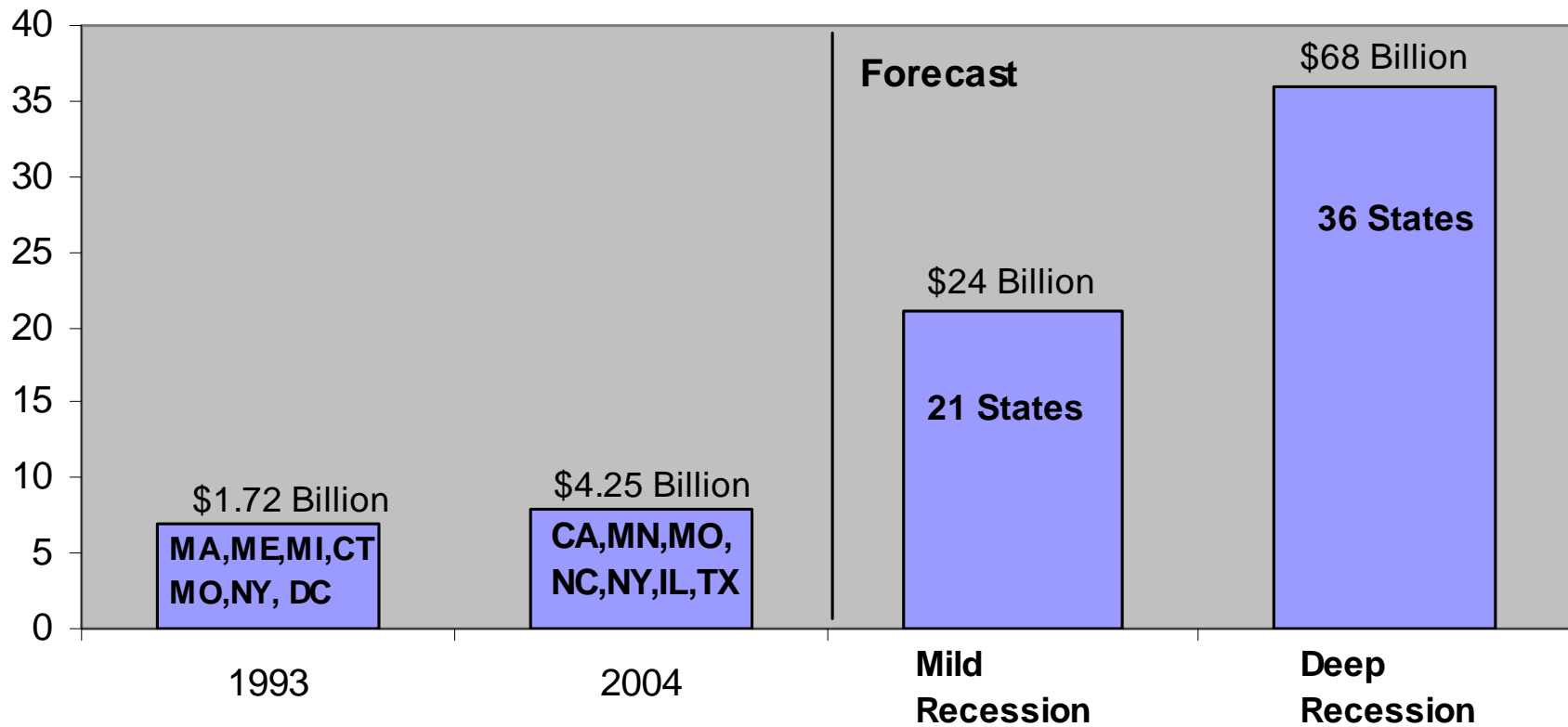
Major Differences in State UI Tax Structures

- Five types of experience rating mechanisms.
- Fourteen states charge the most recent or principal employer, thirty-four states charge in proportion to base period wages.
- Wage Base varies from \$7,000 to \$31,000.
- Three states with employee taxes.
- Twenty-three states with voluntary contributions.
- Three states have no benefit charging.

Benefits, Contributions and Reserve Ratio

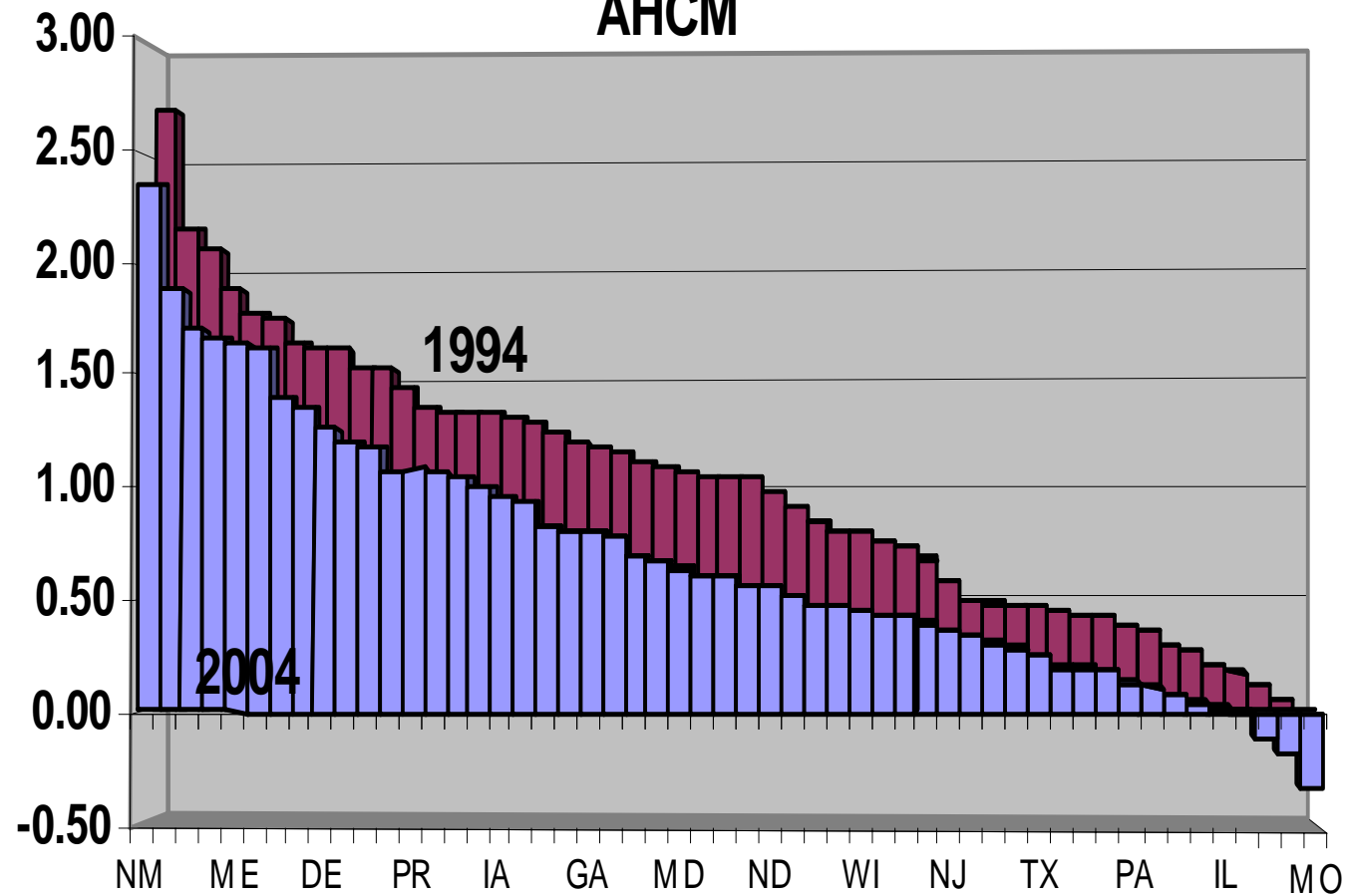


Amount of Peak Year Borrowing Following Last Two Recessions and Forecast



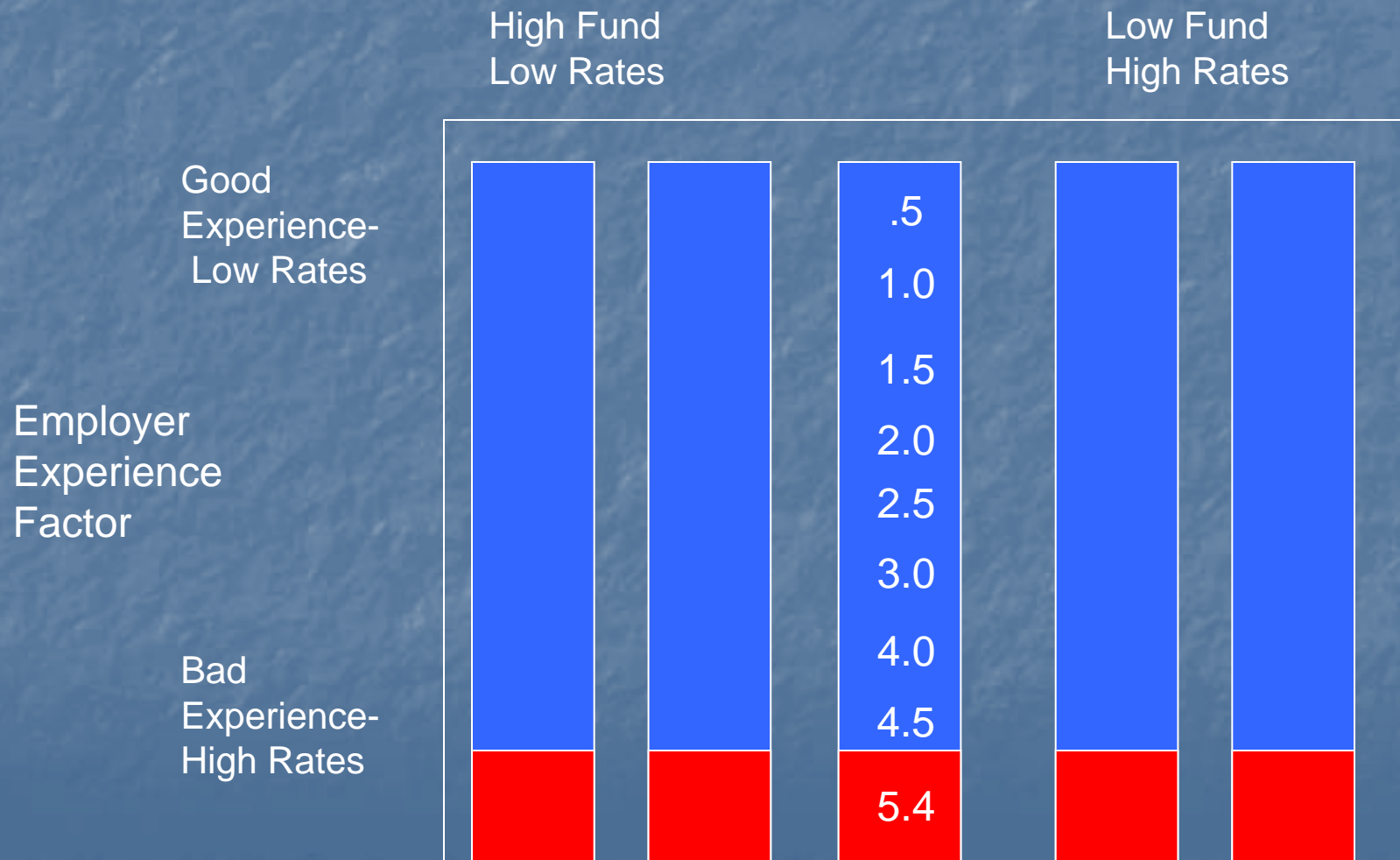
Solvency Three Years after Recession (2004 vs. 1994)

AHCM



Experience Rated Tax System

Measure of Trust Fund Solvency



Characteristics of State UI Benefit Financing Systems

1) High proportion of employers have very low costs.

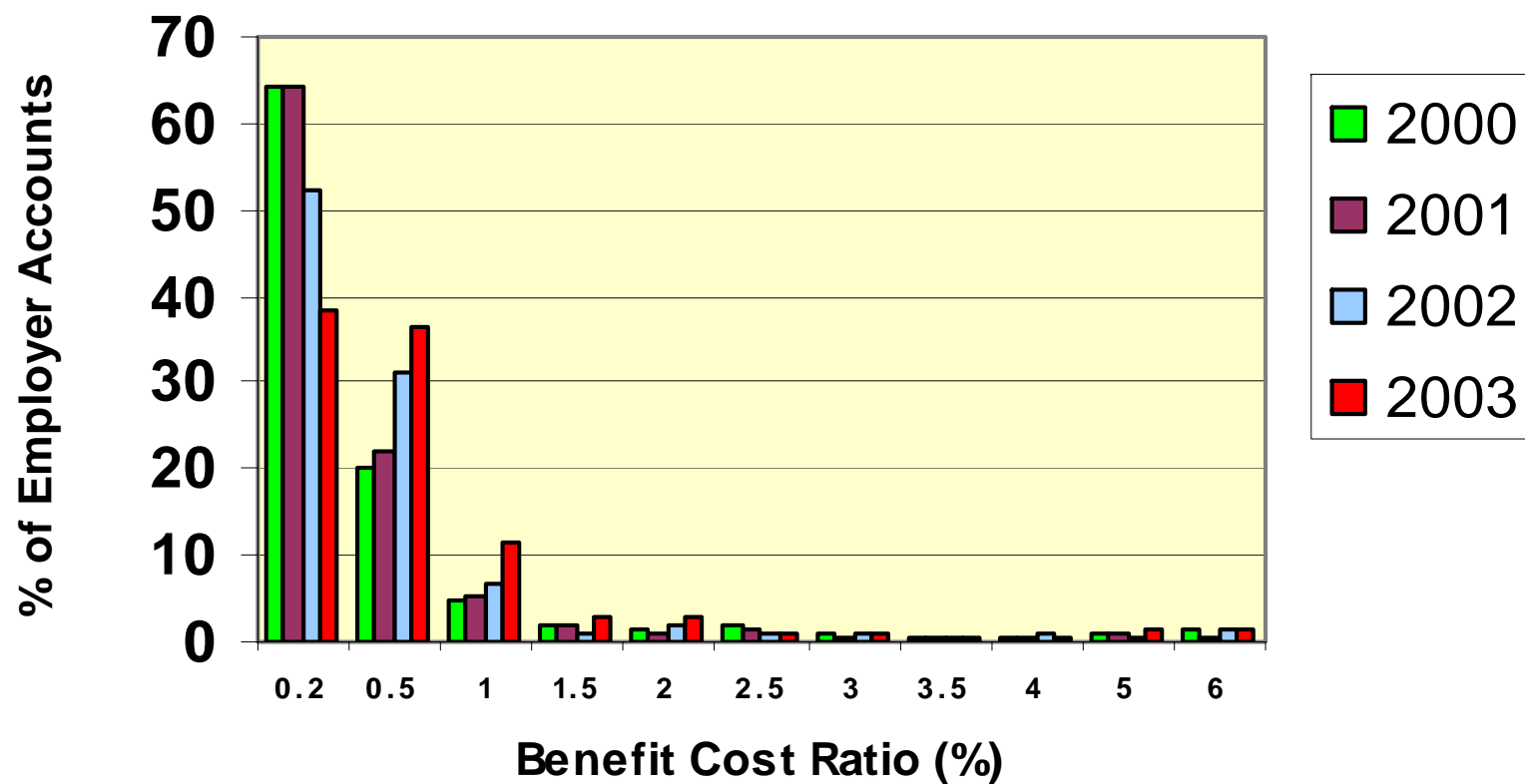
Minimum
Tax Rate

2)

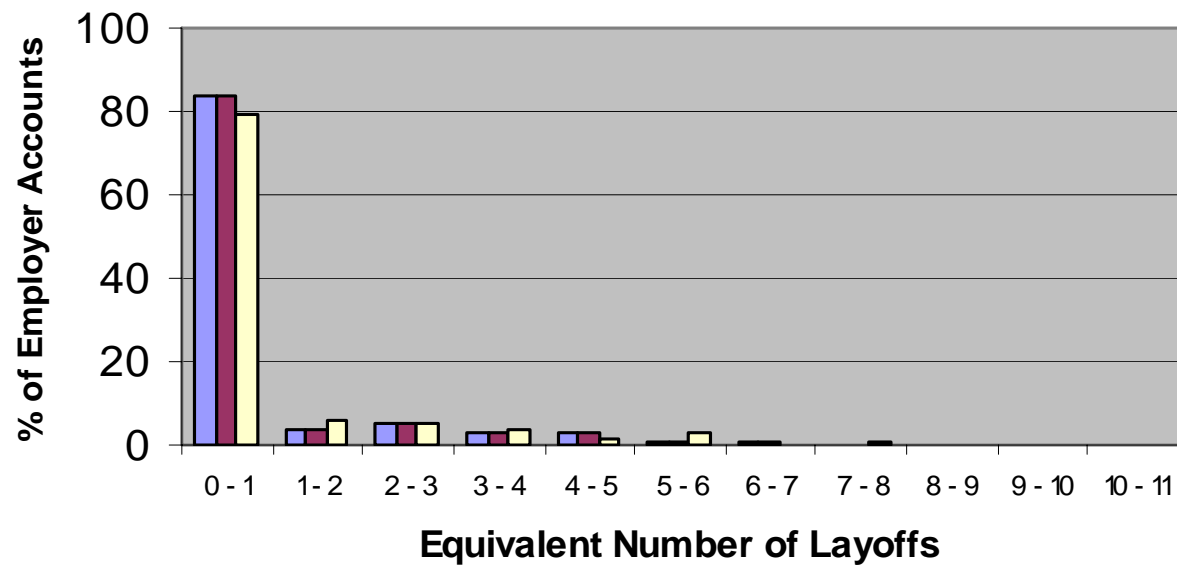
3)

4)

Charged Benefit Cost Rates per Taxable Employer* 2000-2003



Estimated Average Number of Layoffs per Employer (2000-2003)



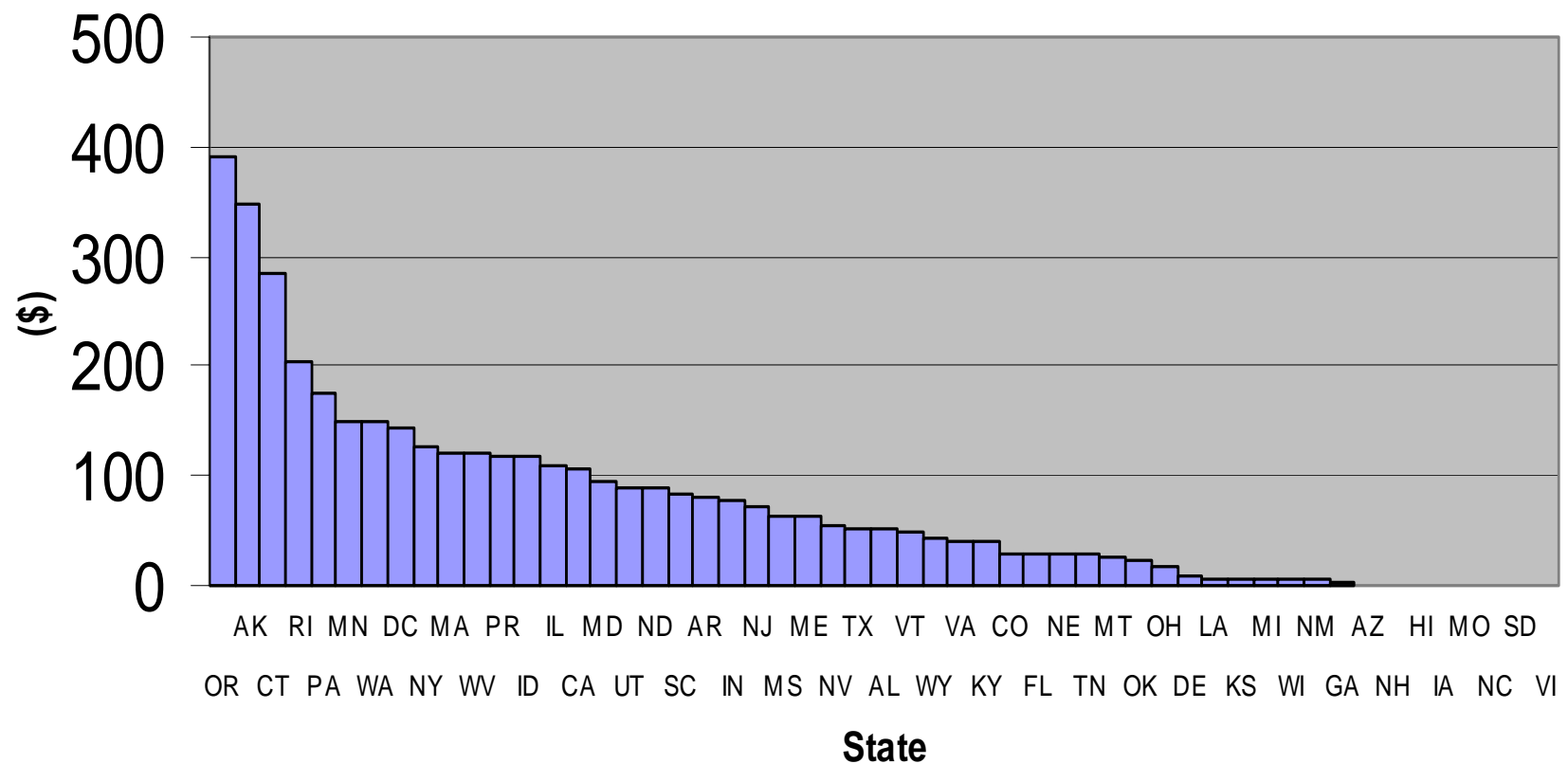
Source: ETA 204 Experience Rating Report 2003, 46 Jurisdictions Reporting.

Distribution of Employers by Tax Rate

(Illinois - 2003)

Exper. Factor Benefit Ratio >	Avg. Tax Rate	No. of Accts.	Total Payroll (000)	Taxable Payroll (000)	Benefits Charged (000)	Est.Con- tribs. (000)
0	0.6	137,586	25,097,96	6,667,552	93,667	40,063
0.1	0.6	1,502	3,375,219	870,886	10,178	5,225
0.2	0.7	1,400	2,325,679	744,206	7,948	4,969
0.3	0.8	1,373	5,006,393	1,272,801	13,770	9,970
0.4	0.9	1,367	3,121,108	890,673	11,077	7,834
0.5	1	1,340	4,100,467	1,446,727	18,125	14,295
15	7.2	4,173	5,344,189	1,331,528	324,781	95,869
Totals(Elg.)	2.9	193,513	172,233,07	40,456,826	1,787,650	1,153,023

Minimum Effective Tax Rate 2004 (Amount Paid per each employee at wage base)



Characteristics of State UI Benefit Financing Systems

1)

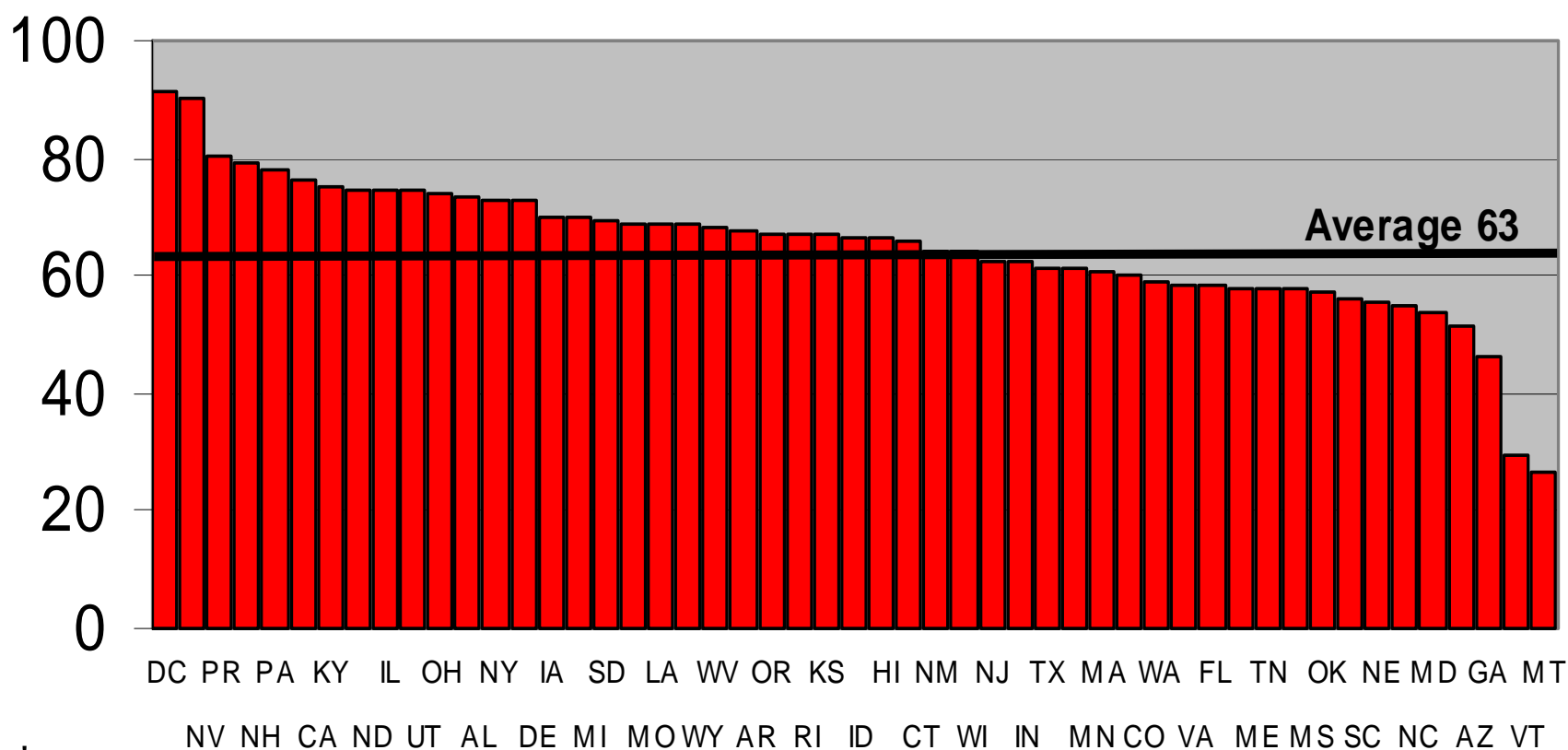
2) High Proportion of Benefits
Are Not Assigned to Individual
Employers.

Social
Tax Rate

3)

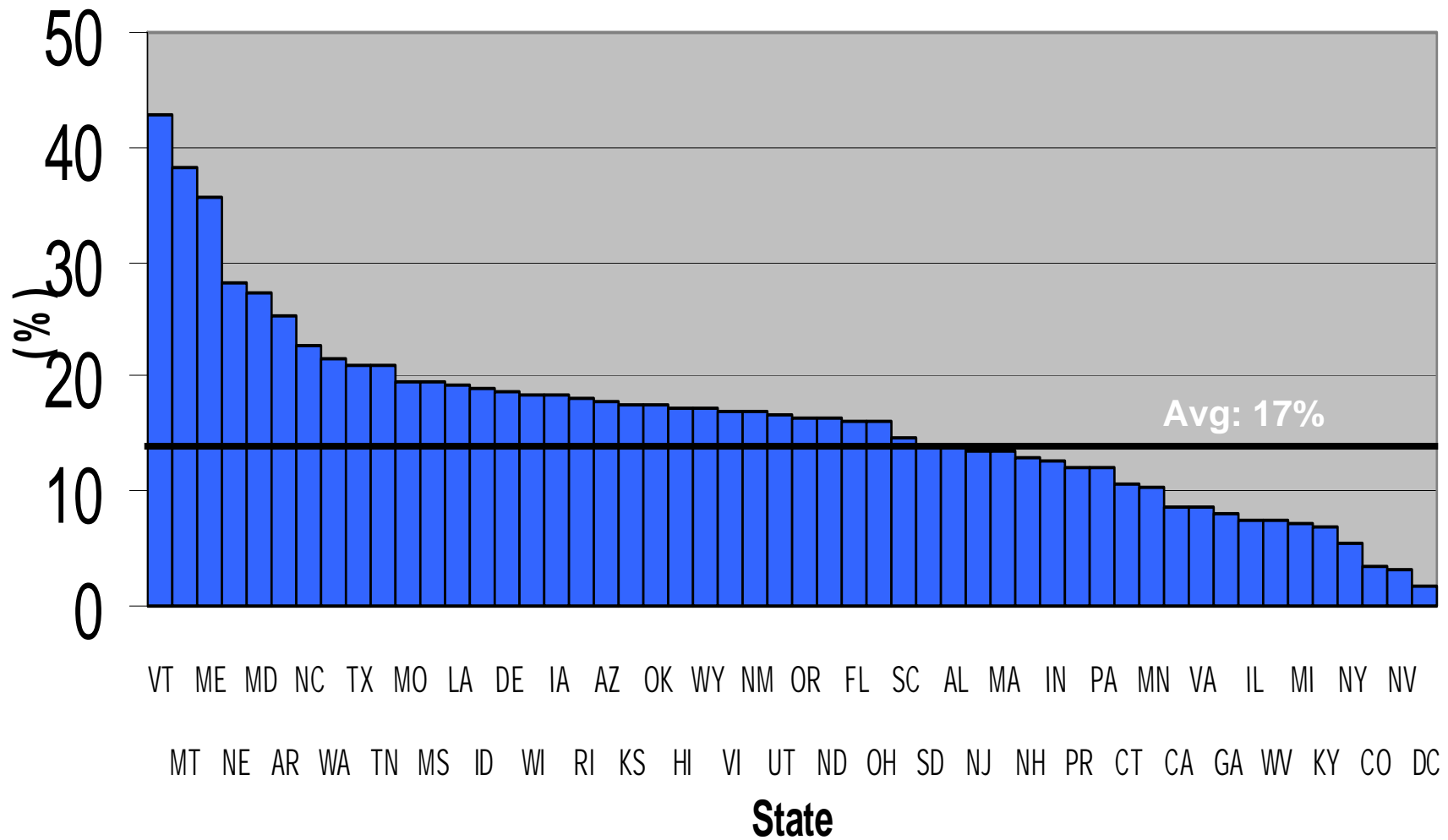
4)

Percent of Benefits Charged to Employers (2000-2003)*

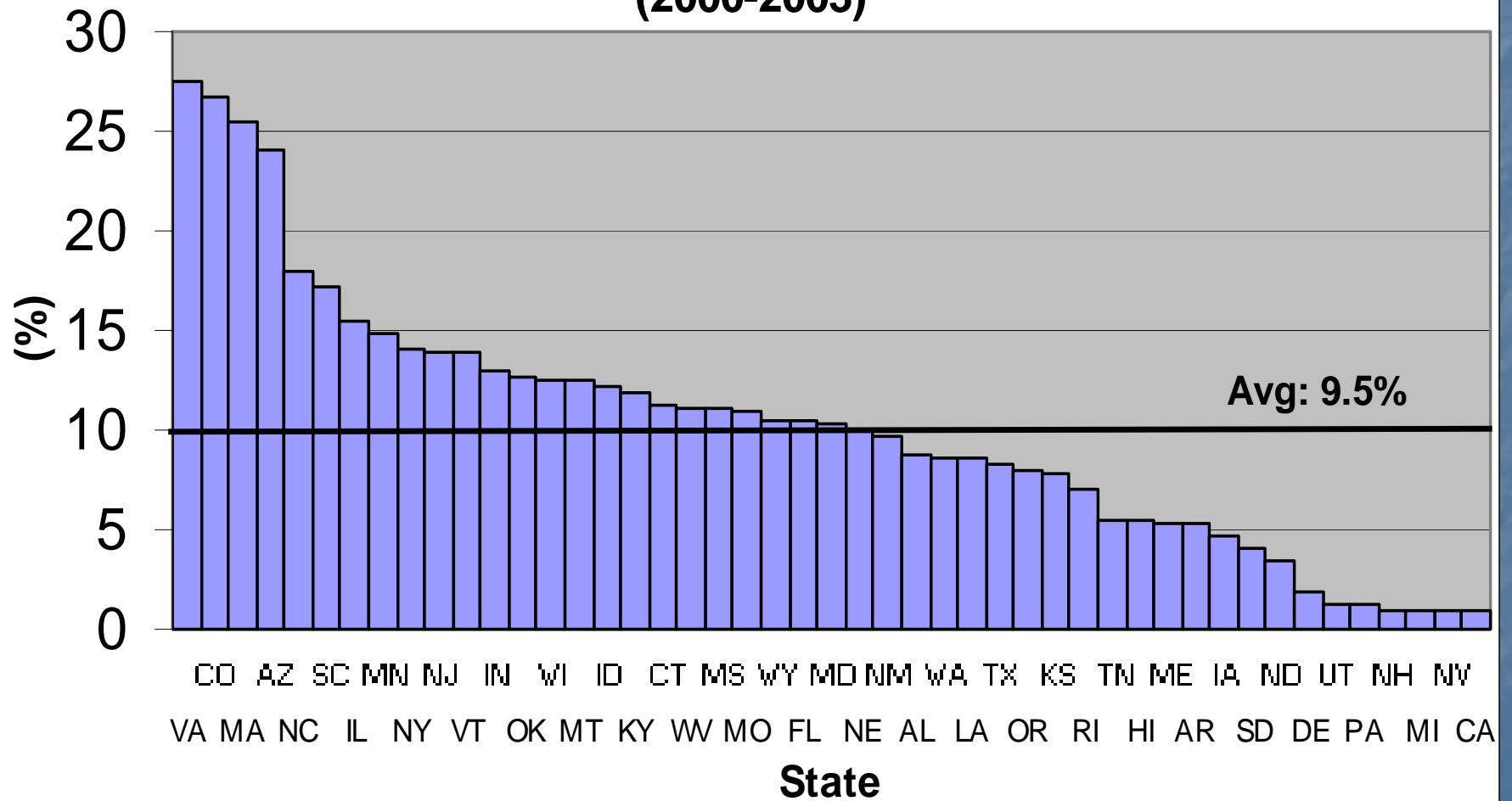


* Based on Data from 43 states on the ETA-204 report

Proportion of Benefits 'Non-Charged' to Individual Employers (2000-2003)



Proportion of Benefits Charged to Inactive Employers (2000-2003)



Characteristics of State UI Benefit Financing Systems

1)

2)

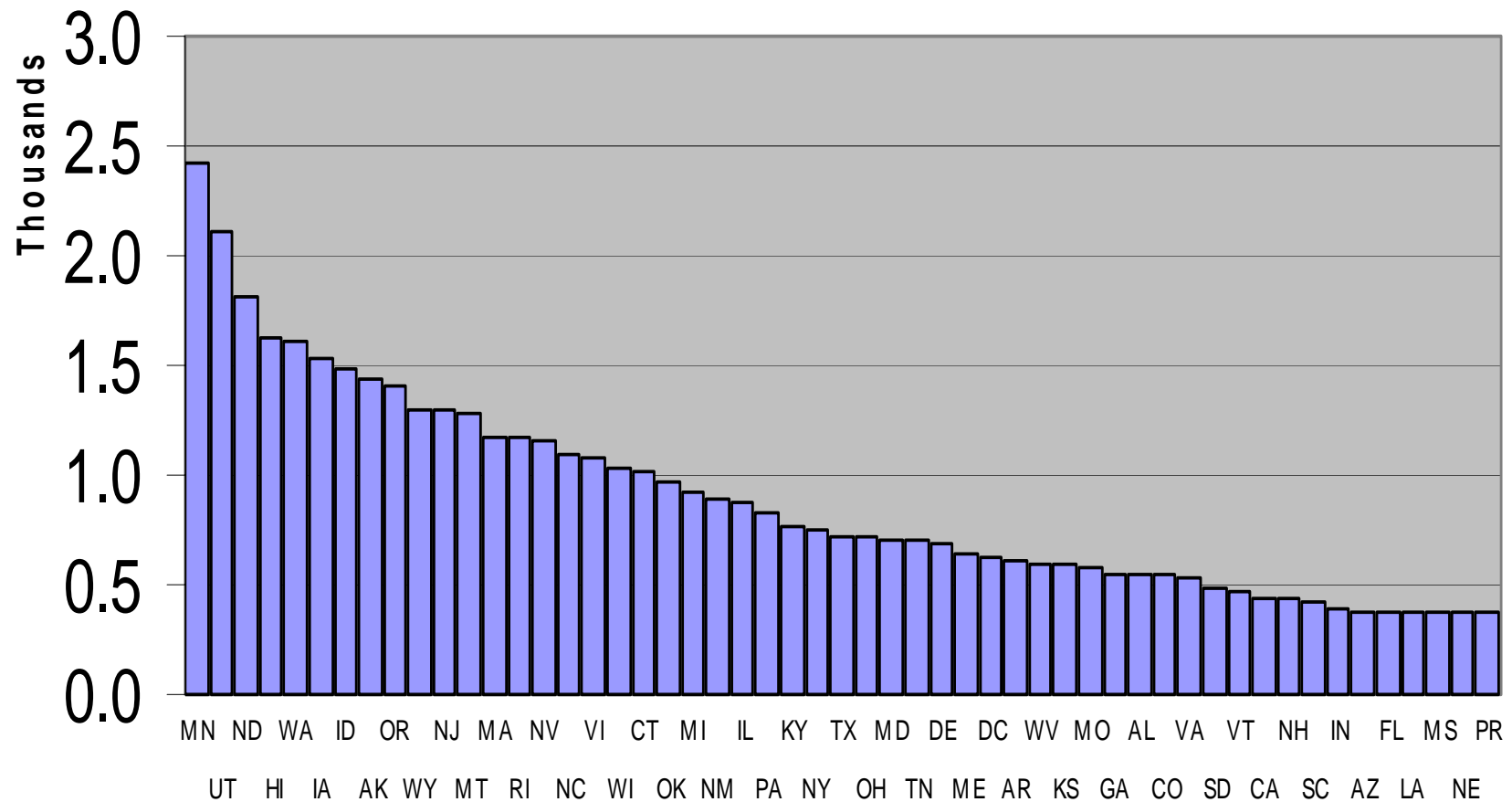
3) Limited Liability for the Highest
(Worst) Rated Employers.

Maximum
Tax Rate

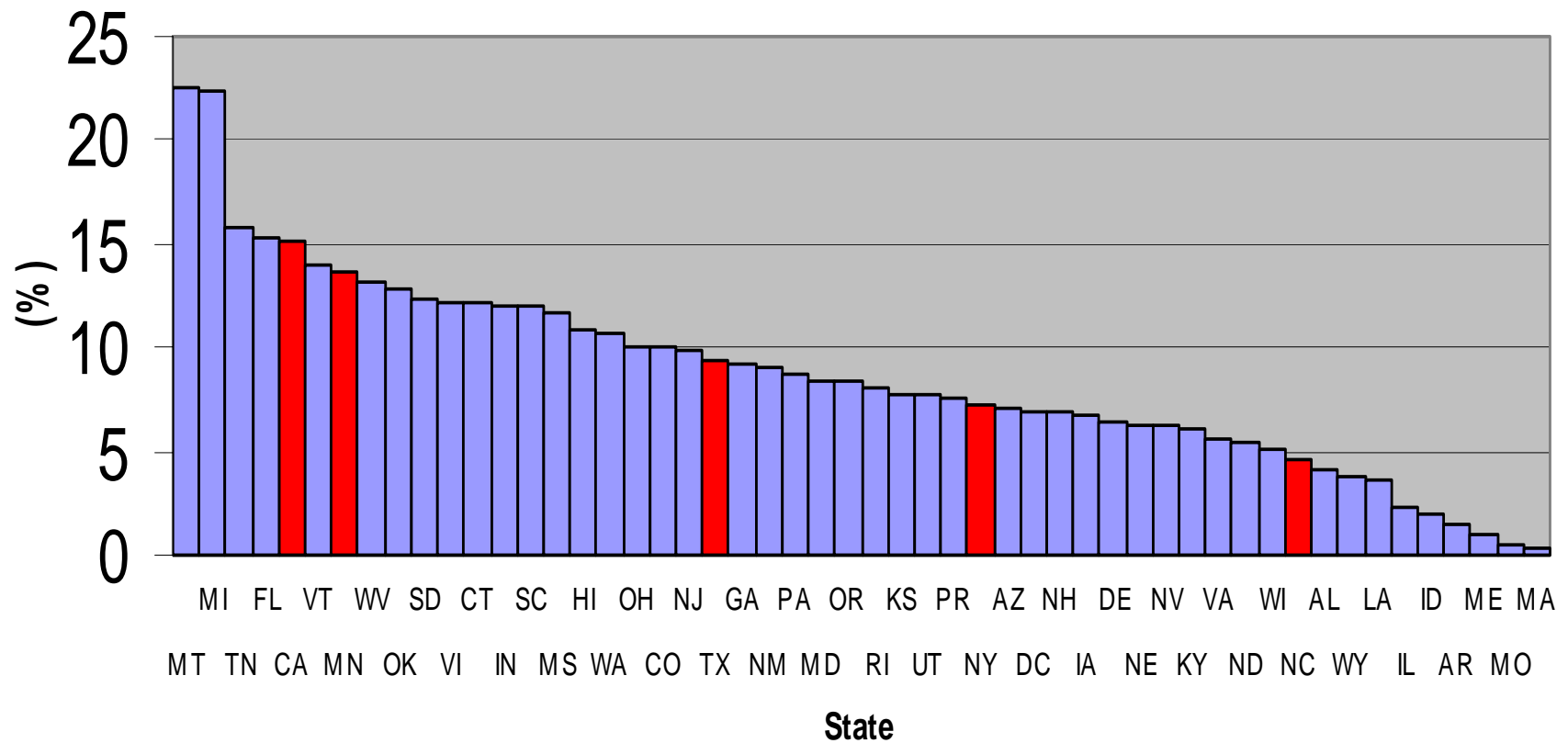
4)

Effective Maximum Tax Rate by State 2004

(Amount paid per each employee at the wage base)



Proportion of Benefits Not Paid by Maximum Rated Employers



Characteristics of State UI Benefit Financing Systems

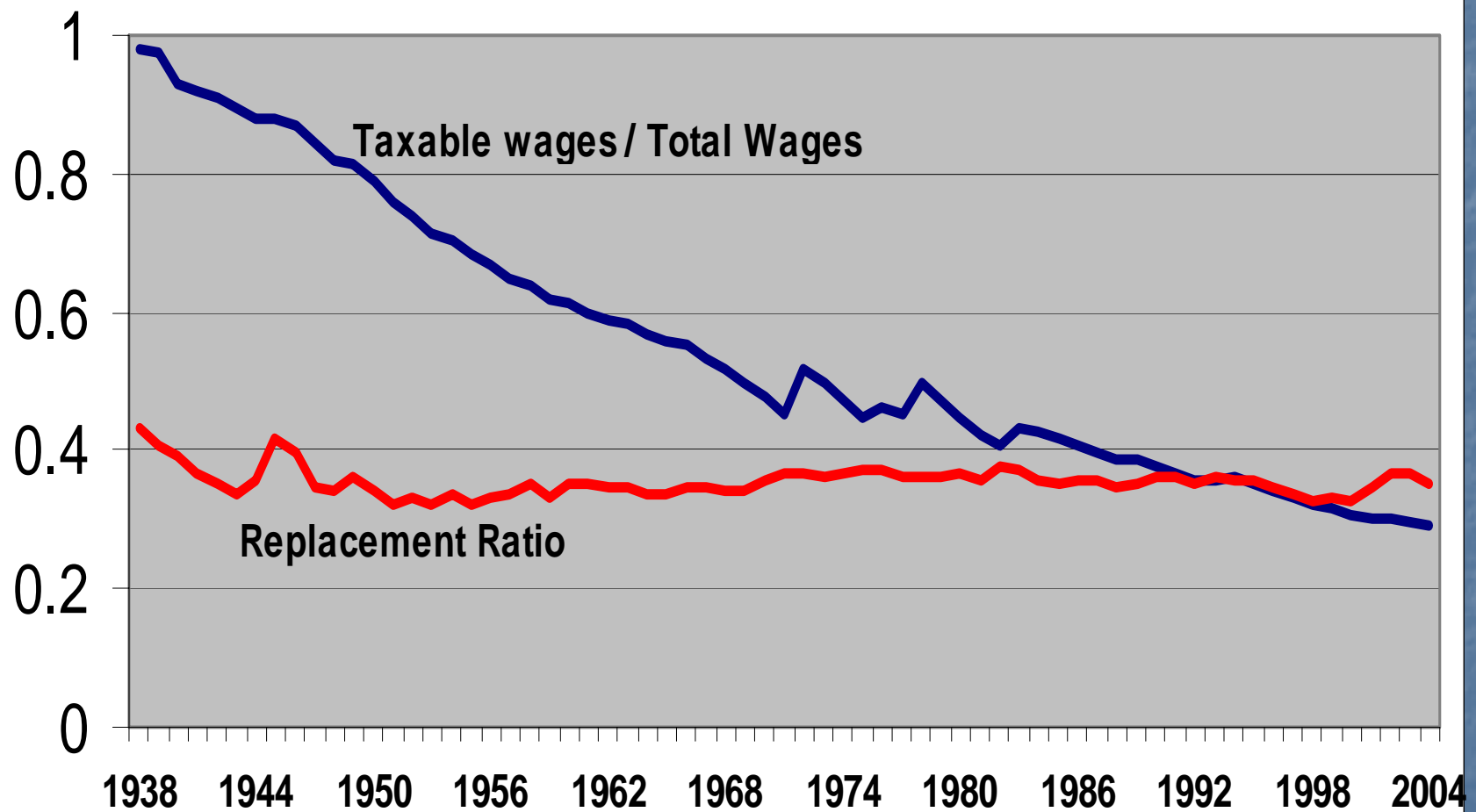
1)

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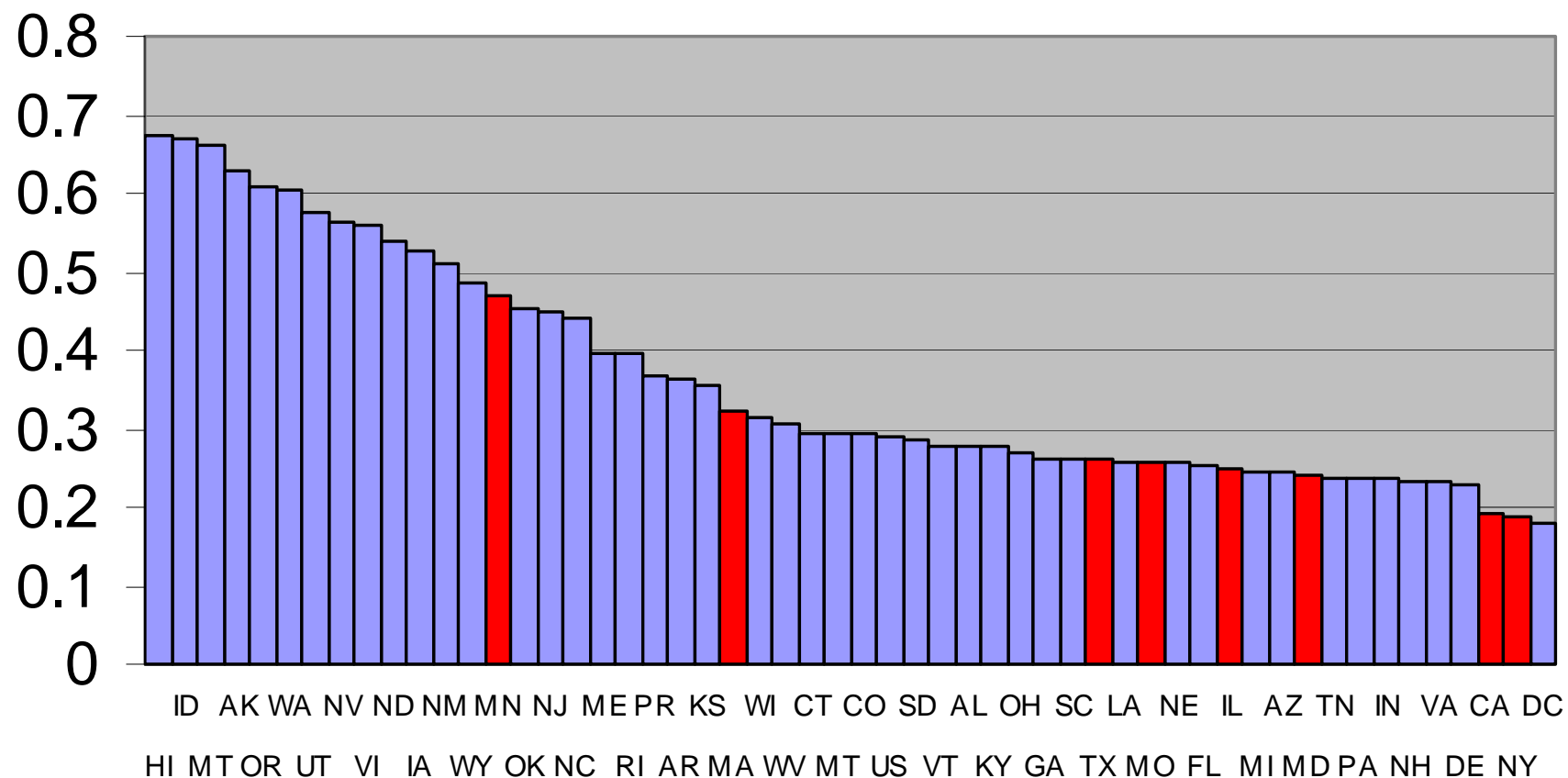
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4) Constant Growth in Labor Force, Wages, and Benefits. Taxable Wage Base

Ratio of Taxable to Total Wages and Replacement Ratio



Proportion of Taxable to Total Wages by State (2004)



Tax System Features That Promote Solvency

- Minimum tax rate provides revenue greater than benefit charges and is no lower than the level of average social charges.
- Explicit Social Cost Rate, equal to the average of last 3-5 years social charges.
- Ineffective charges are no more than 15%-20% of total benefits paid.
- Taxable wage base indexed to grow with wages.